DEPRECIATION ACCOUNTING REQUIREMENTS FOR GENERAL PP&E

1. Land, land rights and permanent land improvements. Service land, land rights of unlimited duration, and permanent land improvements are not subject to depreciation because they are considered non-wasting assets.

2. Depreciation accounting. Depreciation accounting is the systematic and rational allocation of the recorded cost of depreciable (limited-life) capitalized assets over their estimated useful lives. Its elements include:

- Depreciation expense. The portion of the cost of a depreciable asset charged as an expense during a given accounting period.

- Accumulated depreciation. The cumulative total of depreciation expense charged against an asset as of a certain date.

- Net book value. The net of the acquisition cost of a depreciable asset less its accumulated depreciation.

- Depreciable basis. The recorded cost of an asset reduced by the asset's salvage value (if any).

- Salvage value. The salvage value of an asset is the estimated amount expected to be obtained from the sale of the asset at the end of its useful life. If the asset is to be traded in on a new asset, the salvage value is the expected trade-in value. Salvage values will only be estimated for Service assets when the proceeds are permitted to be retained and used by the Service. For purposes of computing depreciation, real property items do not have salvage values.

- Useful life – new assets. For depreciation accounting purposes, we have established estimated useful lives for different categories of capitalized assets. Exhibit 3 summarizes the estimated useful lives for the various depreciable real property asset categories established by the General Services Administration (GSA). Exhibit 4 summarizes the estimated useful lives for the various categories of personal property, which are based on the useful life designations contained in OMB Circular A-76 - Revised Supplemental Handbook.

- Useful life – used assets. For used assets obtained via purchase or donation, the remaining useful life should be estimated. In situations where it is difficult to estimate the remaining useful life, the asset may be depreciated over a standard period equal to one half of the estimated useful life for that asset type.

- Useful life – assets transferred from other Federal agencies. For assets transferred from other Federal agencies, determine the remaining useful life based on the year the asset was placed in service by the transferring agency. The age of the asset when acquired from the transferring agency should be subtracted from the Service's estimated useful life for that type of asset to determine remaining useful life. In situations where the original placed-in-service date is not known, the asset may be depreciated over a standard period equal to one half of the estimated useful life for that asset type.

3. Calculation of Depreciation. Calculate depreciation over the asset's useful life using the straight-line method of depreciation applied to the asset's recorded cost less any applicable salvage value. Base commencement of depreciation on the date the asset is installed or otherwise ready for use, whether or not it is actually used. In the case of constructed real property, depreciation commences on the date the property is beneficially occupied, or otherwise is available for use, even though not all requirements attendant to the construction project have been fulfilled, such as receipt of a certificate of occupancy, closeout of construction contracts, or final payments. To determine depreciation expense for the accounting period that the property is initially placed in service, prorate the expense based on the number of days the asset was in service during the period. Alternatively, prorate depreciation expense on the number of months the asset was in service during the period. Under this option, depreciation is assumed for the entire month that the asset is placed in service.

4. Depreciation of additions and improvements to general PP&E. Costs for additions and improvements are those that either extend the useful life of existing general PP&E, or enlarge or improve its capacity (see Exhibit 1). Costs of any additions and improvements to an existing Service asset that equal or exceed the capitalization threshold for that type of asset should be capitalized and depreciated/amortized over the remaining useful life of the asset. Estimate the impact of an addition or improvement on the asset's useful life (if any) and the remaining useful life extended as appropriate. In situations where it is difficult to estimate the impact of the improvement on the associated asset, or the asset is already substantially or fully depreciated, the improvement may be depreciated over a standard period equal to one half of the estimated useful life for that asset type. Maintenance and repair costs should not be capitalized, regardless of whether the costs equal or exceed the capitalization threshold for the associated asset.

5. Assets Remaining in Use After End of Estimated Useful Life. If an asset remains in use longer than its estimated useful life, its recorded cost and accumulated depreciation should be retained in the accounting records until the asset is retired or otherwise disposed of. No depreciation expense should be recorded after the end of the asset's estimated life.

6. Assets Retired or Disposed of Prior to the End of Estimated Useful Life. If an asset is retired, sold, or otherwise removed from service, record depreciation expense until the disposal occurs. To determine depreciation expense for the accounting period that the property is removed from service, prorate the expense based on the number of days the asset was in service during the period. Alternatively, prorate depreciation based on the number of months the asset was in service during the period. Under this option, depreciation is assumed to cease at the end of the month prior to the month the asset is removed from service.